

## Message Text

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PAGE 01 ROME 20874 271749Z  
ACTION EB-07

INFO OCT-01 EUR-12 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01  
CIAE-00 CIEP-01 COME-00 DODE-00 FEAЕ-00 FPC-01 H-01  
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FM AMEMBASSY ROME  
TO SECSTATE WASHDC 1940  
INFO AMEMBASSY ALGIERS  
AMEMBASSY LONDON  
AMEMBASSY PARIS  
AMEMBASSY TUNIS  
AMCONSUL FLORENCE  
AMCONSUL GENOA  
AMCONSUL MILAN  
AMCONSUL NAPLES  
AMCONSUL PALERMO  
AMCONSUL TRIESTE  
AMCONSUL TURIN  
USMISSION EC BRUSSELS  
USMISSION NATO BRUSSELS  
USMISSION OECD PARIS

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E.O. 11652: N/A  
TAGS: ENRG, EFIN, ETRD, IT, AG, TS  
SUBJECT: ALGERIA-ITALY GAS PIPELINE PROJECT ABANDONED

REF: ALGIERS 2994 (NOTAL)

BEGIN UNCLASSIFIED:

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PAGE 02 ROME 20874 271749Z

1. CONFIRMING LEAKS IN ITALIAN PRESS, STATE HYDROCARBONS  
ENTITY ENI ISSUED PRESS RELEASE DEC 23 CONFIRMING THAT ENI  
AND ALGERIAN STATE OIL COMPANY, SONATRACH, HAD JOINTLY DECIDED  
TO ABANDON PLANS FOR A GAS PIPELINE BETWEEN ALGERIA AND ITALY  
VIA TUNISIA IN FAVOR OF TRANSPORTATION BY SHIP. THE REASON  
FOR ABANDONMENT OF THE PIPELINE OPTION, ACCORDING TO ENI,

WAS THE INABILITY TO REACH A TRANSIT AGREEMENT WITH TUNISIA. ACCORDING TO THE ORIGINAL CONTRACT SIGNED WITH SONATRACH IN 1974, ALGERIA WILL FURNISH 8.5 MILLION CUBIC METERS OF GAS PER YEAR FOR A 20 YEAR PERIOD BEGINNING IN 1982.

2. ACCORDING TO PRESS REPORTS, TANKER OPTION FORESEEN AT TIME OF SIGNING ORIGINAL CONTRACT. NEVERTHELESS, DECISION IS EXPECTED TO INTRODUCE SUBSTANTIAL COMPLICATIONS FOR ENI. PROJECT WILL REQUIRE CONSTRUCTION OF LIQUEFACTION PLANT IN ALGERIA, PROBABLY AT EMBARKATION TERMINAL SKIKDA, INITIAL PURCHASE OF AT LEAST TWO LIQUEFIED NATURAL GAS SHIPS OF 200-250 THOUSAND CUBIC METERS CAPACITY AND A RE-GASIFICATION PLANT AT ITALIAN END. ITALIAN TERMINAL NOT YET CHOSEN, BUT NEWS-PAPERS SPECULATE THAT GAS COULD BE OFF-LOADED IN SICILY BECAUSE AS PART OF ORIGINAL PIPELINE PROJECT, ENI HAS LAID PIPE UNDER STRAITS OF MESSINA. SITE CLOSER TO PRESENT RE-GASIFICATION PLANT AT PANIGAGLIA (LA SPEZIA), WHICH HAS CAPACITY OF ABOUT 3 BILLION C.M./YEAR PRESENTLY FULLY UTILIZED PROCESSING LIBYAN LNG, WOULD HAVE ADVANTAGE OF BEING MORE CENTRALLY LOCATED. TOTAL COST ESTIMATED IN PRESS AT 1,700-1,800 BILLION LIRE (ABOUT \$2 BILLION AT CURRENT EXCHANGE RATES)--ABOUT SAME AS FOR PIPELINE OPTION. PRESUMABLY, ITALIAN MANUFACTURERS WILL FURNISH MOST OF GOODS AND SERVICES USED IN CONSTRUCTION OF FACILITIES AND FLEET. END UNCLASSIFIED.

3. COMMENT: DECISION TO ABANDON PIPELINE OPTION IS NO GREAT SURPRISE. CONTINUING PROBLEMS WITH TUNISIAN GOVERNMENT AND SOME LESS-OBVIOUSLY SHOWN CONCERN WITH RELIABILITY OF ALGERIAN GOVERNMENT (PARTICULARLY IN MATTER OF PRICING) HAVE LONG SUGGESTED THAT ENI WOULD EVENTUALLY SEEK TO ABANDON PIPELINE LIMITED OFFICIAL USE

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PAGE 03      ROME 20874 271749Z

PROJECT. RECENT ENI STUDY (SUMMARIZED IN JUNE 1976 PETROLEUM ECONOMIST) INDICATED THAT COSTS OF PIPELINE VS SHIP TRANSPORT WOULD BE ALMOST EQUAL; THUS ENI WAS OBVIOUSLY UNWILLING TO MAKE GREAT CONCESSIONS TO GOT. WHILE GOT MIGHT HAVE BEEN BROUGHT AROUND, ENI WAS UNWILLING TO DELAY PROJECT SINCE STUDIES INDICATE THAT ITALY WILL NEED ALGERIAN GAS BY 1982. ANOTHER FACTOR WHICH REPORTEDLY ENTERED INTO ENI'S DECISION WAS ALGERIAN PRESSURE TO RESOLVE MATTER ONE WAY OR THE OTHER.

4. NEWSPAPER REPORTS SUGGEST THAT FRENCH GOVERNMENT MAY HAVE HAD HAND IN TUNISIAN GOVERNMENT UNWILLINGNESS TO GIVE ENI TRANSIT RIGHTS ACROSS TUNISIA; FROM HERE, IT IS DIFFICULT TO KNOW WHETHER OR NOT FRENCH ACTUALLY DID OPPOSE PIPELINE PROJECT OR TO EVALUATE WHAT MOTIVES FRENCH MIGHT HAVE HAD FOR SUCH A POLICY. BEAUDRY

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## Message Attributes

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